

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 FS-01 ABF-01 EB-08 AID-05 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 L-03 DODE-00 PA-01 PRS-01 AGRE-00 INT-05
FEA-01 H-01 /092 W

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R 150837Z MAR 77
FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 6903
INFO AMEMBASSY NEW DELHI

LIMITED OFFICIAL USE COLOMBO 0912

NEW DELHI FOR FINATT

E.O. 11652:N/A
TAGS: EFIN, CE
SUBJECT: MORE ON REVALUATION OF RUPEE

REF: (A) COLOMBO 0878 (B) COLOMBO 0905

1. BEGIN UNCLASSIFIED. UNDER HEADLINE "REVALUATION BRINGS QUICK RELIEF" REMINISCENT OF US TELEVISION ADVERTISING, MARCH 15 DAILY NEWS REPORTED 8.3 PERCENT REDUCTION IN RETAIL PRICE OF OFF-RATION SUGAR (FROM RS .6.00 TO RS. 5.50) AND A 15.7 PERCENT CUT IN PRICE OF KEROSENE. SUGAR RATION OF ONE POUND PER PERSON PER MONTH WILL CONTINUE TO BE SOLD AT HEAVILY SUBSIDIZED PRICE OF RS. 0.72. IN ADDITION TO REDUCTION IN KEROSENE PRICE, DAILY MIRROR ARTICLE SPECULATED THAT GASOLINE PRICES MAY ALSO COME DOWN, NOTING THAT CEYLON PETROLEUM CORPORATION WILL NOW HAVE TO PAY LESS IN RUPEES FOR IMPORTED CRUDE. (ON THE OTHER HAND, DECEMBER OPEC INCREASES IN CRUDE PRICE WERE NEVER PASSED ON TO RETAIL LEVEL IN SRI LANKA.) DAILY MIRROR ARTICLE ALSO STATES
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THAT FERTILIZER PRICES HAVE BEEN REDUCTED WITH NEW PRICES TO BE RELEASED SHORTLY, AND OTHER PRICE CUTS WILL BE FORTHCOMING. MIRROR QUOTES "INFORMED SOURCES" TO EFFECT THAT REVALUATION MAY SAVE AS MUCH AS RS. 900 MILLION IN SRI LANKA'S IMPORT BILL THIS YEAR. END UNCLASSIFIED.

2. BEGIN LIMITED OFFICIAL USE. EMBASSY HAS JUST RECEIVED

LATES WORLD BANK STUDY ON SRI LANKA (REPORT NO. 1425-CE, FEBRUARY 28, 1977) WHICH HIGHLIGHTS ADVERSE EFFECTS OF HIGH CURRENT CONSUMPTION TO DETRIMENT OF SAVINGS AND INVESTMENT. ALREADY LOW RATE OF RETURN ON RUPEE INVESTMENT WILL DROP FURTHER AS A RESULT OF REVALUATION. REVALUATION CAN BE CONSIDERED AS A TAX ON EXPORT SECTOR TO PROVIDE ADDITIONAL SUBSIDIES FOR CONSUMPTION.

3. FINANCE MINISTER'S CLAIM THAT RUPEE HAS STRENGTHENED DUE TO EXPORT BOOM (REFTEL B) BELIED BY REPORT'S BALANCE OF PAYMENTS FIGURES WHICH SHOW AN INCREASE IN TOTAL DOLLAR EXPORT EARNINGS OF LESS THAN ONE PERCENT IN 1976 OVER 1975, WITH TEA AND COCONUT REGISTERING SIZABLE

DECLINES IN BOTH VOLUME AND VALUE. CONSIDERABLE INCREASE IN GROSS EXTERNAL ASSETS (REPORT STATES NET ASSETS STILL NEGATIVE) WAS DUE ENTIRELY TO SHARP DROP IN TOTAL VALUE OF IMPORTS. WHILE ACKNOWLEDGING ADVERSE IMPACT OF DROUGHT, WORLD BANK STATES DISAPPOINTING TRENDS IN TREE CROP SECTOR PRIMARILY REFLECTION OF INSUFFICIENT PROFITABILITY. REVALUATION HAS NOW EFFECTIVELY CUT PROFITABILITY BY 20 PERCENT. END LIMITED OFFICIAL USE. REED

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